Prince Edward Island
Energy Corporation

Annual Report
2008 - 2009

Prince Edward Island
CANADA

Prince Edward Island
Energy Corporation

For the Year Ended
March 31, 2009

Our Legislated Objectives

Incorporated as a provincial crown corporation under the *(PEI) Energy Corporation Act*, the legislated objectives of the Prince Edward Island Energy Corporation are ... "*to develop and promote the development of energy systems and the generation, production, transmission and distribution of energy in all its forms on an economic and efficient basis, to provide financial assistance for the development, installation and use of energy systems, and to coordinate all government programs in the establishment and application of energy systems in the province.*"

Our Core Activities

Consistent with our legislated objectives the corporation:

- owns and operates wind farm operations at Elmira and North Cape which have a combined electrical generation capacity of 40.56 MW;
- owns electrical transmission facilities in Prince County that connect its North Cape operations and other renewable energy generators to the Maritime Electric grid;
- demonstrates the potential of energy storage, particularly from renewable generation, through its development of the Wind-Hydrogen Village at North Cape;
- provides guidance to Government for the formulation of provincial policy, programs and legislation that pertain to energy matters.

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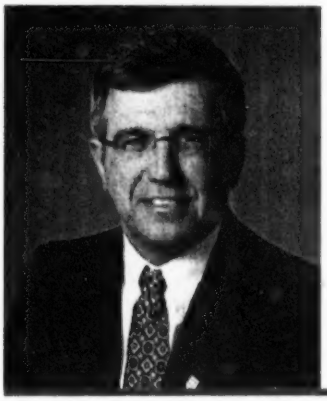


Message From the Minister

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Lieutenant Governor:

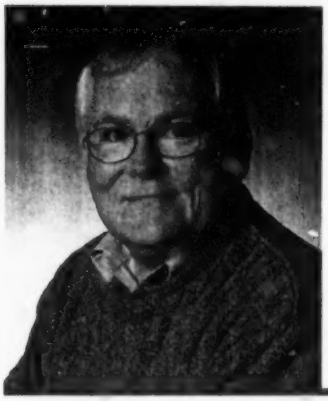
In accordance with Section 10.(1) of the (PEI) *Energy Corporation Act*, it is my pleasure to submit to the Legislative Assembly the 26th Annual Report of the Prince Edward Island Energy Corporation.

Respectfully submitted,

Richard Brown

Richard E. Brown

Minister of Environment, Energy and Forestry
Minister Responsible for the Prince Edward Island Energy Corporation



Message From the Chief Executive Officer

The Honourable Richard E. Brown
Minister of Environment, Energy and Forestry
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Honourable Minister:

In addition to the day-to-day operations of the province's wind generation assets and other related infrastructure, the Prince Edward Island Energy Corporation was involved in the development of policy documents that will plot provincial energy strategy over the next 10 years.

The publication ***Securing our Future: Energy, Conservation and Renewables*** culminates a series of public consultation sessions and input from various stakeholders. The document provides the blueprint that will enable the province to embark on a path to greater energy independence, affordable pricing and environmental sustainability.

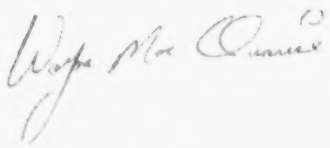
Over the past several years, Prince Edward Island has developed a robust wind power industry that has enabled the province to generate approximately 18 per cent of its electricity from renewable sources. The 10 Point Plan, released in October 2008, provides the framework for the orderly deployment of future wind power capacity that maximizes social, environmental and economic benefits for the Island community. It is expected that the province will have an installed wind power capacity of 500 MW by 2013.

Capitalizing on renewable energy from intermittent resources, such as the wind, requires efficient storage capability. The Prince Edward Island Energy Corporation's Wind Hydrogen Village Project at North Cape continued to advance towards the production of hydrogen fuel from wind power. Hydrogen gas that is created during periods when the wind turbines are operating may be stored and later consumed in an internal combustion engine or fuel cell when the wind is not blowing.

Possible near-term applications for hydrogen storage technology are supplying electricity for Arctic communities and other remote locales which must otherwise import costly diesel fuel to operate generators; however, the long-term possibilities for hydrogen fuel may include more wide spread applications.

On behalf of the Board of Directors of the Prince Edward Island Energy Corporation it is my pleasure to provide you with the Annual Report that provides a description of the activities and financial accounting for fiscal year 2008-2009. It is my opinion that this Annual Report accurately describes the activities and finances of the corporation during this reporting period.

Yours sincerely,



Wayne MacQuarrie
Chief Executive Officer

Executive Summary

The Prince Edward Island Energy Corporation is a provincial crown corporation whose form and function is dictated by the (PEI) *Energy Corporation Act*. Through ownership of wind farms at North Cape (10.56 MW) and East Point (30 MW), the corporation supplies approximately 120,000,000 kilowatt-hours of renewable electricity to Islanders. The corporation provides an advisory service to Government on energy matters that result in the formulation of policy, programs and legislation.

Reporting to the minister responsible for energy matters, the Prince Edward Island Energy Corporation is governed by a Board of Governors that consists of between five and seven members. The day to day operation of the corporation rests with a Chief Executive Officer who is also an ex officio board member.

During the year, the corporation reported revenues of $14 million as compared to $13.7 million recorded for 2007-2008. Electrical energy sales from North Cape and East Point facilities provided $11 million which was a $700,000 decrease as compared to the previous year. Gear box failures on the V-90 turbines at the East Point Wind Farm in Elmira detracted from the corporation's energy production and resulting sales decrease. The lost revenue at East Point was partially recouped from the turbine supplier through a liquidated damages claim available from the operations and maintenance agreement. The marginal increase in revenue over the preceding year was attributed to higher electrical prices for energy generated at the North Cape Wind Farm.

Hydrogen gas has often been referred to as the fuel source of the future. The corporation is engaged in two projects that are demonstrating the utilization of hydrogen fuel. The PEI Wind-Hydrogen Village Project, located at North Cape, utilizes renewable, but intermittent, wind energy to create hydrogen gas that is stored and consumed when the wind resource is not available. The Hydrogen Shuttle Bus and Fueling Demonstration Project in Charlottetown demonstrates the potential of hydrogen gas in a transportation application.

Two important policy documents in which the corporation had direct involvement were published during the reporting period. ***Securing our Future: Energy, Conservation and Renewables*** provides Prince Edward Island with a new five and ten year energy vision which focuses on the development of indigenous, renewable energy supplies. Building on the theme that the cheapest energy is that which you do not use, the document also describes the Provincial Government's initiatives to improve energy efficiency and reduce consumption.

Released in October 2008, **The 10 Point Plan** is government's blueprint for future wind development. Within the plan are measures that ensure all Islanders will benefit from the expansion of the province's wind industry. It is expected that on-Island wind capacity will increase from 150 MW to 500 MW by 2013 to serve both domestic and export markets.

Board of Directors

The affairs of the Prince Edward Island Energy Corporation are under the direction of a Board of Directors that consists of between five and seven members. John MacQuarrie, Deputy Minister of the Department of Environment, Energy and Forestry, has served as chairperson of the board since October 2004.

The names of the board members as of March 31, 2009, are provided in the following table. Included are the provincial departments that are represented on the board and the beginning date of their appointment.

Name	Position Held	Term of Appointment
Deputy Minister for the Energy Portfolio (John MacQuarrie)	Chairperson	November 10, 1998 - at pleasure
Deputy Minister for Intergovernmental Affairs (Sandy Stewart)	Vice Chairperson	May 8, 2001 - at pleasure
Deputy Minister for Department of Innovation and Advanced Learning (Michael Mayne)	Director	November 10, 1998 - at pleasure
Reagh Hicken	Treasurer-Director	November 10, 1998 - at pleasure
Deputy Minister for Department of Transportation and Public Works (Steve MacLean)	Director	November 10, 1998 - at pleasure
Wayne MacQuarrie	Secretary-Director	May 8, 2001 - at pleasure

Staff of the Prince Edward Island Energy Corporation

The daily operations of the Prince Edward Island Energy Corporation are under the direction of the chief executive officer, Wayne MacQuarrie, P. Eng. In addition to these duties, Mr. MacQuarrie serves as the director of the Energy and Minerals Section under the Department of Environment, Energy and Forestry. Including his present tenure as chief executive officer of the corporation and director of the Energy and Minerals Section, Wayne has served the province for more than 25 years.

Administrative support for both the corporation and the Energy and Minerals Section are the responsibility of Dawn Larter.

The corporation's senior engineer is Mark Victor, P. Eng. Mark's primary responsibility is to oversee the operations at the Hydrogen Village. Mark's career experience includes project management in both the private and public sectors.

Annual Objectives

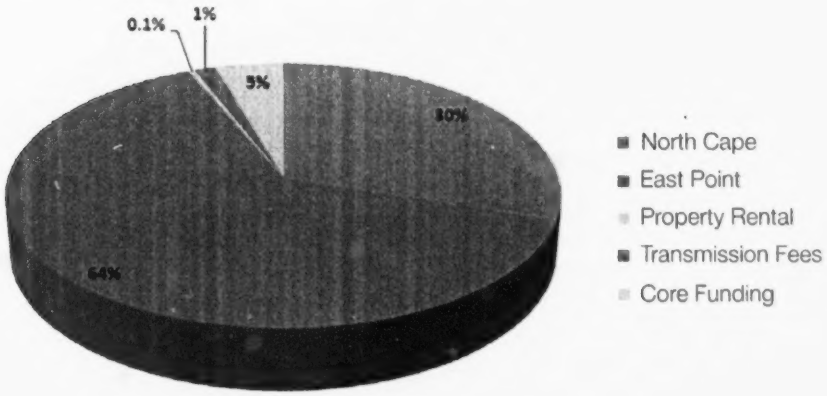
The Prince Edward Island Energy Corporation set the following objectives for the 2008-2009 Fiscal Year:

- continue to operate the North Cape Wind Farm at a high level of availability and energy production and secure an operations and maintenance agreement with a service provider;
- improve the machine availability of the turbines at the East Point Wind Plant and thereby increase the electrical generation from the site;
- install the necessary equipment at the Hydrogen Village in preparation for hydrogen production at the site by spring 2009; and
- facilitate the release of Government policy documents for a new energy strategy and the further development of wind power in Prince Edward Island.

Operational Review for 2008-2009

The Prince Edward Island Energy Corporation has two main sources of operational revenue, those being the North Cape Wind Farm and the East Point Wind Farm. Other sources of operational revenue include 69 kV transmission lines which the corporation utilizes for the North Cape Wind Farm and charges fees for a private wind project to transmit their energy. Rental income accrues from buildings that the corporation owns at the North Cape and East Point wind facilities that are leased by Vestas-Canadian Wind Technologies for their operations and maintenance shops.

Sources of Operational Revenue 2008-2009



North Cape Wind Farm

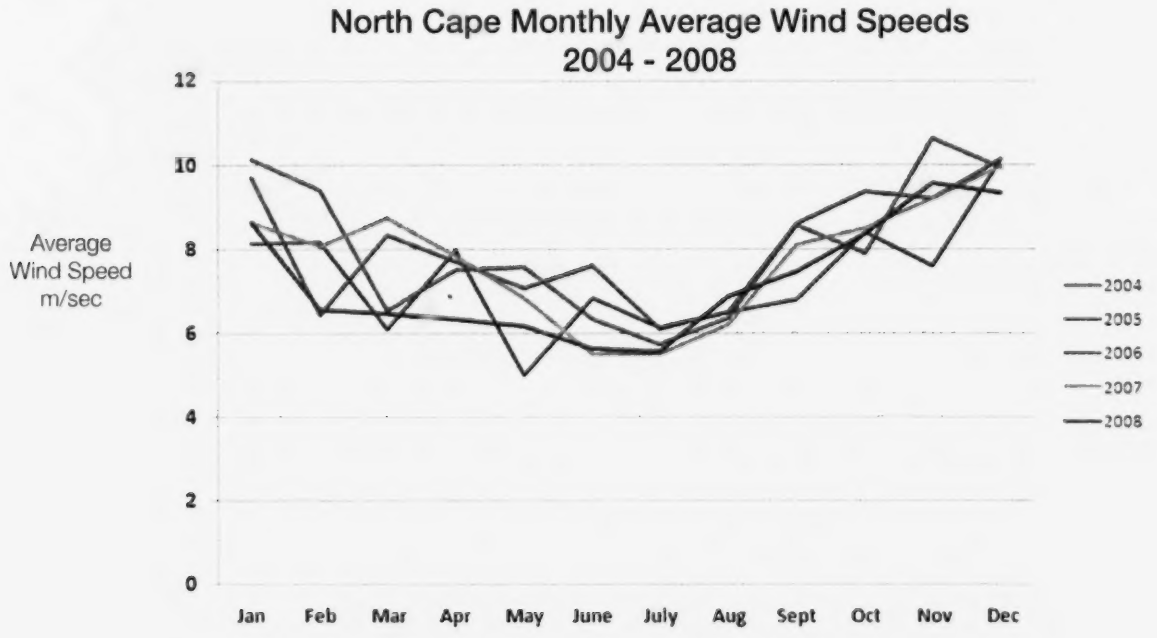
Located at the northwestern tip of the province, the North Cape Wind Farm has a 10.56 MW generating capacity through the operation of 16 Vestas V-47 turbines. The first eight turbines were commissioned in November 2001, thereby becoming Atlantic Canada's first commercial wind farm. The commissioning of the final eight turbines, or Phase II, occurred in November 2003 and the facility continues to operate at a high level of machine availability.

As noted in the following graph/table the 2008-2009 generating year produced the lowest annual production in the past five years. This lower-than-expected production was partially due to chronic mechanical problems with one of the turbines that reduced production by approximately 800 Megawatt-hours.

North Cape Wind Farm Annual Production
FY 2004-05 to FY 2008-09
Megawatt-hours

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	AVE.
Phase I	17,122	18,145	17,502	16,360	15,937	17,013
Phase II	16,727	17,104	17,259	15,722	16,052	16,572
Total	33,849	35,249	34,761	32,082	31,989	33,585

Another contributing factor that decreased production was a diminished wind resource. The average annual wind speed for the 2008 calendar year was only 7.2 metres per second as compared to the long-term average of 8.1 metres per second. Since 2004, the site has registered below average annual wind speeds which may just be a natural variation which is expected to correct in the upcoming years.



Despite lower than average production during the FY 2008-09 generating period, the facility outperformed the previous year in revenue. This is because the Corporation is paid for power from North Cape based on the utility's "avoided cost", or what they would otherwise have to pay for electricity if this facility was not producing. Electricity markets trended higher over the previous year which resulted in the Corporation receiving increased pricing for this energy.

North Cape Total Revenue*
FY 2004-05 to FY 2008-09
$ x 1000

FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	AVE.
2,676	2,672	2,993	3,604	3,873	3,164

* Total Revenue includes payments for electricity and production incentives from the Provincial and Federal governments. Deductions and additions from energy imbalance charges are also included in Total Revenue.

An objective for the past fiscal year was to enter into a multi-year agreement with an operations and maintenance provider to service the turbines at the North Cape Wind Farm. Options for differing levels of service delivery were explored but it was determined that a comprehensive operations and maintenance agreement with the existing provider would provide the most cost-effective and reliable performance at the facility. In December 2008 the corporation signed a five-year operations and maintenance agreement with Vestas.

East Point Wind Plant

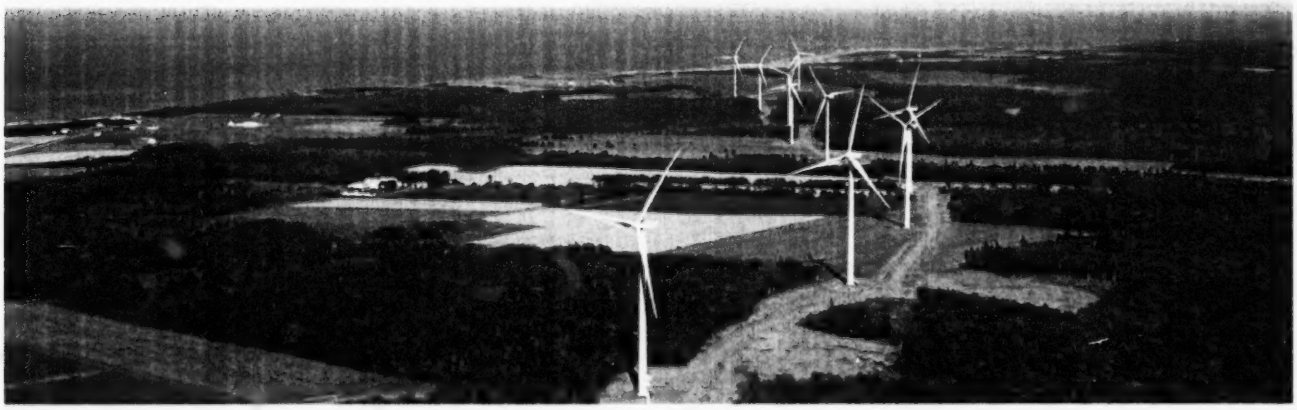
During the past fiscal year the East Point Wind Plant recorded its second full year of production. The $47 million Elmira facility is composed of 10, Vestas V-90 turbines, with each unit having a generation capacity of 3.0 MW. Included in the infrastructure at the site is a transformer pad, overhead collection system and 2.5 kilometres of service road. All electricity generated from the turbines is sold to Maritime Electric Company, Ltd. (MECL) under a long-term power purchase agreement. The price for this power is determined through the ***Renewable Energy Act*** **Minimum Price Regulations** and was originally set at 7.75 cents per kilowatt-hour. After April 1, 2008, and for each year after, a portion of the price, 2.0 cents/kilowatt-hour, is adjusted based on the Consumer Price Index (CPI).

Operations and maintenance of the turbines is through a five-year agreement with Vestas that entered its third year of enforcement in January 2009. This agreement provides comprehensive service and parts replacement for the turbines and includes a machine availability covenant. Vestas must maintain a minimum machine availability of 95 per cent or pay the corporation liquidated damages based on a formula that calculates lost revenue from turbine downtime below this figure.

Production at the site was approximately 78 million kilowatt-hours as compared to an expected 90 million kilowatt-hours. This shortfall was almost entirely the result of gearbox problems that required all of the turbines to be put out of service for extended periods. In March 2008, the corporation was originally notified that two turbines would be shut down and a gearbox replacement plan would be instituted. It was further divulged that eight turbines would require gearbox replacements. Because this failure was a widespread problem with the V-90 model, all the turbines had their gearboxes changed as a preventive measure.

Due to road closures during the spring breakup, heavy equipment and replacement gearboxes were not brought on to the site until late May. By August 2008, the facility was fully operational and able to take advantage of the high wind months in the fall and winter seasons.

Although the gearbox problem in the V-90 turbine provided disappointing production figures for the past fiscal year, a liquidated damages clause in the operations and maintenance agreement enabled the corporation to recoup virtually all the revenue that would have otherwise been lost as a result of the gearbox failures. The only lost revenue experienced by the corporation was related to the ecoEnergy for Renewable Power program from the Federal Government. Because this program is based on the amount of kilowatt-hours that the facility provides to the electrical utility, there is no recourse for claiming lost production.



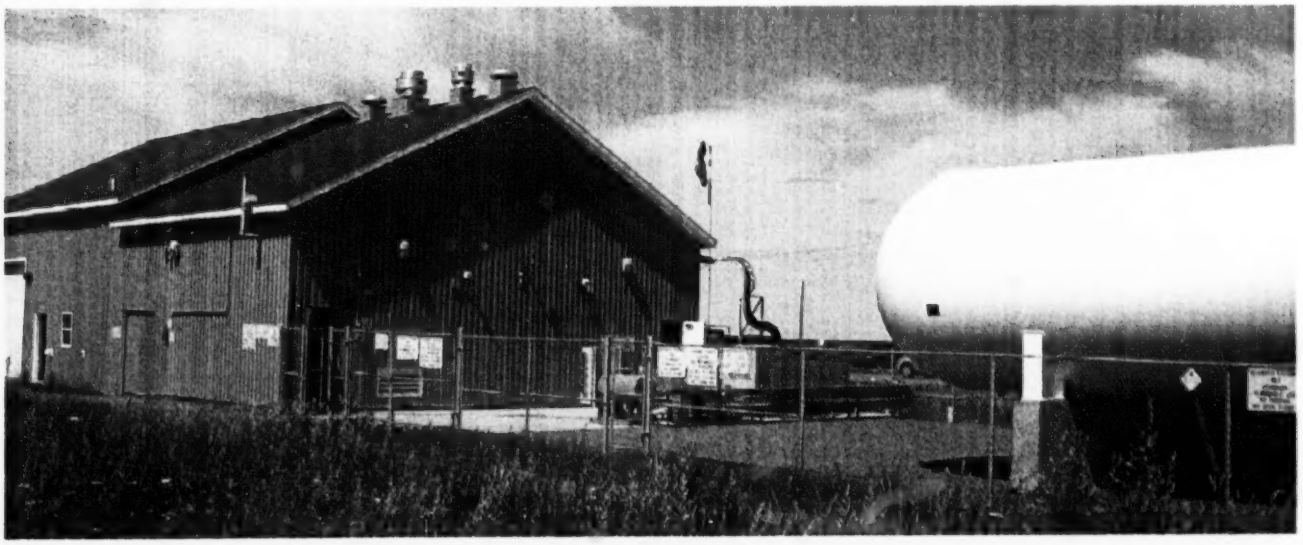
PEI Wind-Hydrogen Village Project

The PEI Wind-Hydrogen Village Project is a research, development and demonstration initiative being operated at North Cape, with the objective of establishing a unique, grid-independent renewable energy supply system. Utilizing an intermittent energy supply, wind power, the system supplies electricity from wind turbines when that resource is available. Wind turbines also provide the energy required to create hydrogen gas from water molecules. During periods when there is no wind or low wind, stored hydrogen gas is used to fuel a generator that keeps electricity flowing to the project's buildings.

The near term potential for wind-hydrogen technology includes deployment in Canada's northern and remote communities that are entirely dependant on diesel fuels to operate electrical generation sets. Displacement of fossil fuels for electricity production may provide a savings in fuel costs, as well as result in environmental benefits from emission reductions and eliminate possible diesel fuel spills. In the longer term, the production of hydrogen fuel from renewable energy may displace industry's requirement from acquiring this gas from fossil fuels and lead to future transportation and energy storage applications.

During the past year, significant progress was registered at the North Cape facility as major system components were installed, including the necessary mechanical and electrical interconnections for the village. System commissioning is scheduled to begin in April 2009 and it is anticipated that the system will be ready for start-up and be fully operational in late fall.

Of the $3.3 million allocated for the project, approximately $1.6 million was spent during the past fiscal year to complete the building construction and procure and assemble equipment. Funding partners for the PEI Wind-Hydrogen Village Project are the PEI Energy Corporation ($2.49 million) and Natural Resources Canada ($0.85 million).



Hydrogen Shuttle Bus and Fueling Demonstration Project

In late 2007, the Hydrogen Shuttle Bus and Fueling Demonstration Project was launched by the PEI Energy Corporation. The project's objective is to demonstrate the viability of utilizing hydrogen gas as a safe and clean transportation fuel.

Ford Motor Company of Canada, supplier of the two shuttle buses, will be provided with operation data generated by the project to further their development of the technology. The project is being funded by the PEI Energy Corporation, Natural Resources Canada and Air Liquide Canada.

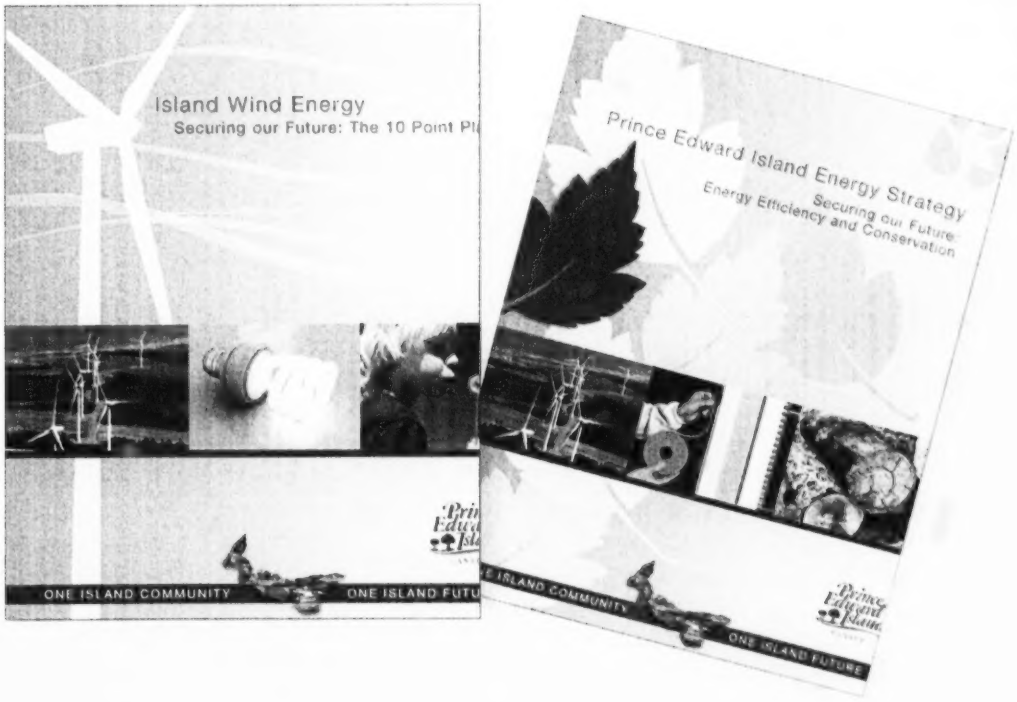
In this reporting period, the Hydrogen Shuttle Bus and Fueling Demonstration Project provided the Ford buses to Charlottetown Transit as part of that system's fleet of vehicles. This enabled the hydrogen buses to log a combined 17,790 kilometres of in-service travel.

Energy Policy Development

The Prince Edward Island Energy Corporation routinely advises the Provincial Government on energy matters and often takes a leading role in formulating policy, programs and legislation. Over the past year, two important policy documents were released which will dictate government energy policy in the near and long term and serve as a blueprint for the orderly deployment of future wind development.

The new energy strategy, ***Securing our Future: Energy, Conservation and Renewables***, was compiled with the input of many stakeholders and a series of public consultation sessions in communities across Prince Edward Island. The document provides a blueprint for Government initiatives in both a five- and 10-year horizon.

Bound by the constraint of lacking indigenous sources of fossil fuels, the province is highly dependant on imported oil. As witnessed during the reporting period, this leads to highly fluctuating energy prices placing hardship on Island households and businesses. PEI has a world class wind resource and the corporation has been in the forefront of proving the economic viability of exploiting this energy source for electrical generation; however, displacing oil and other fossil fuels used for transportation, heating and industrial processes still remains a challenge. The new energy strategy describes several initiatives and Government actions to hasten the deployment of other renewable energy sources, such as geothermal, liquid biofuels and biomass.



An integral component of the new energy strategy is simply using less. This requires policy, programs and legislative initiatives that promote energy conservation and energy efficiency; and typically, the least cost energy source is through employing these measures.

Since the commissioning of the corporation's Phase I turbines at North Cape in 2001, Prince Edward Island has become a recognized leader in wind technology. Combining the corporation assets and those of private developers, the province has 162 MW of wind generation capacity. Providing 18 per cent of its electricity by wind power, the province has potential to develop more sites to meet both local and export markets. In October 2008, Premier Robert Ghiz released the 10 Point Plan which will serve as the guide for future wind power projects to ensure that the entire Island community benefits from this development.

Financial Statements

As noted in the accompanying financial statements, the Corporation's assets increased by $3 million over the previous year. Despite mechanical difficulties at the East Point Wind Plant, and lower than average production at North Cape, the Corporation's earnings marginally increased in fiscal year 2008-09.

Prince Edward Island
Energy Corporation

Consolidated Financial Statements
For the Year Ended
March 31, 2009

BFM Chartered Accountants

A.W. Beaton, CA
J.G. Murray, CA
P.J. Trainor, CA
J.J. Dunn, CA, TEP

H.W. MacLauchlan Centre
155 Belvedere Ave., Suite 200
P.O. Box 2158
Charlottetown
Prince Edward Island
C1A 8B9

Tel: (902) 892-5365
Fax: (902) 892-0383
Email: bfm@bfm.pe.ca
www.bfm.pe.ca

AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated statement of financial position of Prince Edward Island Energy Corporation as at March 31, 2009 and the consolidated statements of operations, surplus and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BFM Chartered Accountants

Charlottetown, P.E.I.
May 21, 2009

PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Financial Position

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	$ 6,269,552	$ 5,326,332
Accounts receivable (note 2)	3,741,764	7,307,045
Prepaid expenses	524,377	235,848
Current portion of loan receivable	400,000	-
	10,935,693	12,869,225
Long-term investment (note 3)	58,079	162,902
Loan receivable (note 4)	2,896,581	-
Capital assets (note 5)	58,717,276	56,630,178
Bond issue costs (note 6)	51,470	70,190
	$ 72,659,099	$ 69,732,495
Liabilities and Surplus		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,767,119	$ 1,393,077
Payable to Province of Prince Edward Island	1,617	-
Deferred revenue	-	4,149,717
Current portion of long-term debt	3,353,378	2,380,223
	7,122,114	7,923,017
Long-term debt (note 7)	47,420,219	47,336,697
Bonds payable (note 8)	7,278,250	7,044,250
Surplus	10,838,516	7,428,531
Commitments (note 9)		
Contingencies (note 10)		
Financial instruments (note 12)		
	$ 72,659,099	$ 69,732,495

See accompanying notes to consolidated financial statements.

On Behalf of the Board:

Director

Director

PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Operations

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Grants - Province of Prince Edward Island	$ 577,983	$ 486,184
Expenses:		
Advertising	397	2,157
Amortization of bond issuance costs	18,720	18,720
Audit	12,735	15,503
Consulting fees	215,826	132,924
Grant to Wind Energy Institute of Canada - Operations	131,000	131,000
Insurance	6,250	6,250
Materials and supplies	6,879	4,650
Miscellaneous grants	-	10,000
Office and computer equipment	4,814	-
Office and computer supplies	1,920	2,477
Professional fees	25,093	26,582
Telecommunications	3,451	4,097
Travel and training	25,338	23,881
Wages and employee benefits	125,560	113,449
	577,983	491,690
Loss before the undernoted	-	(5,506)
Other income/expenses:		
Wind Farm	4,290,816	3,439,798
Hydrogen Village	(1,495,594)	(130,060)
Grant to WEICan - Wind Farm contribution	-	(115,871)
Clean Air and Climate Change	7,268,377	-
Grant - Environmental Attributes	55,120	-
Grant - Transmission line	(6,003,512)	-
Grant - Concessionary loan	(737,607)	-
Grant recovery - Concessionary loan	34,188	-
Interest - Transmission line	(1,803)	-
Natural Resources Canada	500,000	-
Grant to WEICan - Wind research and development	(500,000)	-
Loss - projects	-	(6,221)
	3,409,985	3,187,646
Net earnings	$ 3,409,985	$ 3,182,140

See accompanying notes to consolidated financial statements.

PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Surplus

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Surplus, beginning of year	$ 7,428,531	$ 4,246,391
Earnings - operating for the year (page 2)	3,409,985	3,182,140
Surplus, end of year	$ 10,838,516	$ 7,428,531

See accompanying notes to consolidated financial statements.

PRINCE EDWARD ISLAND ENERGY CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts from customers	$ 21,781,328	$ 13,450,122
Cash paid to suppliers and employees	(10,886,712)	(4,755,644)
Interest received	211,714	139,856
Interest paid	(2,980,086)	(2,684,268)
	8,126,244	6,150,066
Cash flows from financing activities:		
Repayments on long-term borrowings	(2,380,223)	(2,181,646)
Proceeds from short-term borrowings	3,772,000	-
Repayments on short-term borrowings	(335,100)	(1,734,500)
Issuance of bonds	234,000	1,679,550
	1,290,677	(2,236,596)
Cash flows from investing activities:		
Decrease in long-term investments	104,823	37,098
Decrease in reserve for capital expenditures	-	(173,050)
Purchase of capital assets	(5,281,943)	(230,350)
Increase in loan receivable	(3,296,581)	-
	(8,473,701)	(366,302)
Net increase in cash	943,220	3,547,168
Cash and equivalents, beginning of year	5,326,332	1,779,164
Cash and equivalents, end of year	$ 6,269,552	$ 5,326,332
Represented by:		
Cash	6,269,552	5,326,332
	$ 6,269,552	$ 5,326,332

See accompanying notes to consolidated financial statements.

Prince Edward Island Energy Corporation is a Crown corporation established by the Energy Corporations Act, and therefore is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act. The Corporation's principal business activities include the development and promotion of energy systems.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the corporation's 100% owned subsidiaries, The Atlantic Wind Test Site Inc. and Prince Edward Island Renewable Energy Corporation. The accounts of The Atlantic Wind Test Site Inc. ("AWTS") are consolidated up to April 16, 2007. On this date, AWTS surrendered its Charter and ceased operations.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of non-restricted cash and short-term, highly liquid investments with an original maturity date of 90 days or less. Cash equivalents are stated at amounts that approximate fair value, based on quoted market prices.

(c) Capital assets:

Capital assets related to the North Cape and East Point Wind Generating Plants are recorded at cost. Office furniture, equipment and computer equipment are fully expensed in the year of acquisition.

Amortization is provided using the straight-line method at the following annual rates:

Asset	Rate
Wind Farm - North Cape	20 years
Norway line	20 years
Buildings	20 years
Wind Farm - East Point	20 years

1. Significant accounting policies (continued):

(d) Long-term investments:

Long-term investments are stated at cost.

(e) Loan receivable:

The loan receivable is recorded at cost less a discount representing the concessionary term of the loan. The discount is the difference between the face value of the loan and its present value. To determine present value, the Corporation used the Province's 10-year borrowing rate as at December 31, 2008. The loan discount is amortized to revenue using the effective interest rate method.

(f) Revenue recognition:

Revenues are recorded in the period in which the transaction or events that give rise to the revenues occur. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the Corporation discharges the obligations that led to the collection of funds. Interest revenue is calculated and recognized as specified with the lending agreements.

(g) Financial instruments:

The Corporation utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a trade date basis.

The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:

Held-for-trading:
This category comprise certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

Loans and receivables:
These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Available-for-sale investments:
Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise certain investments in equity instruments, including the Corporation's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

Other financial liabilities:
Other financial liabilities include all financial liabilities other than those classified as held-for-trading and comprises trade payables, other short-term monetary liabilities and bank borrowings. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

(h) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

1. **Significant accounting policies (continued):**

(i) Bond issue costs:

Bond issue costs consist of direct costs incurred in issuing the bonds, including printing, advertising, legal fees and other professional fees.

The bond issue costs are amortized on a straight-line basis over the period from the date the bonds were issued to their maturity date. The bonds are for a term of five years.

(j) Financial risk management objectives and policies:

The Corporation's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. As part of the overall management of the entity's operations management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the Corporation's exposure.

2. **Accounts receivable:**

	2009	2008
Trade	$ 3,651,283	$ 3,193,679
G.S.T.	90,481	(36,235)
Province of Prince Edward Island	-	4,149,601
	$ 3,741,764	$ 7,307,045

3. **Long-term investment:**

	2009	2008
Frontier Power Systems Inc.	$ 58,079	$ 162,902
	$ 58,079	$ 162,902

During the year, a number of the preferred shares held in Frontier Power Systems Inc. were redeemed for proceeds of $ 104,823. (2008 - $ 37,908.).

4. Loan receivable:

	2009	2008
West Cape Wind Energy, Inc., non-interest bearing, payable in equal annual principal installments of $ 400,000., amortized to 2018, secured by a guarantee of its parent, Suez Energy North America, Inc.	$ 3,296,581	$ -
Less current portion of loan receivable	(400,000)	-
	$ 2,896,581	$ -

The maturity of the loan receivable for each of the five years subsequent to March 31, 2009 is as follows: 2010 - $ 400,000.; 2011 - $ 400,000.; 2012 - $ 400,000; 2013 - $ 400,000.; and 2014 - $ 400,000.

5. Capital assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Wind Farm - East Point	$ 46,659,283	$ 5,053,960	$ 41,605,323	$ 43,938,285
Land - East Point	19,000	-	19,000	19,000
Wind Farm - Phase I	8,924,479	3,306,114	5,618,365	6,064,589
Wind Farm - Phase II	7,562,296	2,014,944	5,547,352	5,925,468
Buildings	665,751	66,844	598,907	525,503
Norway line	203,010	55,828	147,182	157,333
Transmittal line under construction	5,181,147	-	5,181,147	-
	$ 69,214,966	$ 10,497,690	$ 58,717,276	$ 56,630,178

Transmittal line under construction at year end is not amortized because the asset is not available for use.

6. Bond issue costs:

	2009	2008
Bond issue costs	$ 93,590	$ 93,590
Less accumulated amortization	(42,120)	(23,400)
	$ 51,470	$ 70,190

7. Long-term debt:

	2009	2008
Province of P.E.I. Provincial Treasury, 4.87% debenture, payable in monthly payments of principal and interest of $ 209,730., starting April 30, 2007, due March 31, 2022	$ 24,205,159	$ 25,508,495
Bank of Montreal, 6.6%, payable in equal monthly payments of principal and interest of $ 82,051., due October 2016, secured by signed commitment letter and Province of Prince Edward Island Order in Council guaranteeing full amount of loan	5,862,038	6,438,925
Province of P.E.I. Provincial Treasury, 5.39% debenture, payable in quarterly payments of principal of $ 100,000., with a balloon payment of $ 100,000. every 24 months starting in March 31, 2005, plus interest, due December 2018	4,250,000	4,750,000
Province of P.E.I. Provincial Treasury, floating interest rate based on the Province's borrowing rate, with no set terms of repayment	12,684,400	13,019,500
Province of P.E.I. Provincial Treasury, floating interest rate based on the Province's borrowing rate, with no set terms of repayment	2,803,000	-

7. Long-term debt (continued):

Province of P.E.I. Provincial Treasury, floating interest rate based on the Province's borrowing rate, with no set terms of repayment	969,000	-
	50,773,597	49,716,920
Less current portion of long-term debt	3,353,378	2,380,223
	$ 47,420,219	$ 47,336,697

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2009 are as follows: 2010 - $ 3,353,378.; 2011 - $ 2,594,438.; 2012 - $ 2,610,742.; 2013 - $ 2,833,655.; and 2014 - $ 2,863,561.

8. Bonds payable:

As at March 31, 2009, a total of 272 (2008 - 262) annual interest bond units with a total issued value of $ 1,856,700. (2008 - $ 1,781,700.), and 1,206 (2008 - 1,182) compound interest bond units with a total issued value of $ 5,421,550. (2008 - $ 5,262,550.) were outstanding for a total bonds payable of $ 7,278,250. (2008 - $ 7,044,250.).

The bonds mature five years from the date of issuance and have a fixed interest rate of 5% per annum. Annual interest bonds bear simple interest, payable annually on the anniversary date of issuance up to and including the maturity date for the bonds. Interest on compound interest bonds is compounded annually on the anniversary date of issuance up to and including the maturity date. Interest on compounded bonds accumulates and is payable on the maturity date of the bonds. The bonds are guaranteed by the Province of Prince Edward Island.

Fair value information on bonds payable has been omitted because it is not practical to determine the fair value of this financial instrument due to its unique characteristics and the lack of an organized market where this financial instrument can be traded.

The aggregate maturities of bonds issued for each of the five years subsequent to March 31, 2009 are as follows: 2010 - $ Nil.; 2011 - $ Nil.; 2012 - $ 5,364,700.; 2013 - $ 1,679,550.; and 2014 - $ 234,000.

9. Commitments:

The Corporation has committed up to $ 2.49 million on a P.E.I. Wind-Hydrogen project and has spent $ 1,625,653. (2008 - $ 130,060.) to date.

10. Contingencies:

The Corporation has entered into a contract with the Department of Natural Resources (NRCan) under the Wind Power Production Incentive program. In the event that revenue from the sale of production of the Wind Farm exceeds the standardized market value of the production, the incentives received must be repaid to NRCan. During the year, revenue was not in excess of the standardized market value and consequently, no liability must be recognized.

11. Capital management:

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long-term obligations and ensuring financial health, while achieving the growth plans of the Corporation. There has been no change with respect to overall capital risk management strategy during the year.

As a Crown corporation, PEI Energy Corporation receives its long-term capital funding primarily from the Province of Prince Edward Island.

The Corporation's capital consists of short-term debt having a term to maturity of one year or less, long-term debt having a term to maturity greater than one year and equity, primarily in the form of surplus.

12. Financial instruments:

	As at March 31, 2009		As at March 31, 2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Held-for-trading				
Cash and cash equivalents	$ 6,269,552	$ 6,269,552	$ 5,326,332	$ 5,326,332
Loans and receivables				
Trade and other accounts receivable	3,741,764	3,741,764	7,307,045	7,307,045
Loan receivable	3,296,581	3,296,581	-	-
Available for sale investments				
Long-term investments	58,079	58,079	162,902	162,902
Other financial liabilities				
Trade and other accounts payable	3,767,119	3,767,119	1,393,077	1,393,077
Long-term debt, including current	50,773,597	51,754,266	49,716,920	50,977,981
Bonds payable	7,278,250	7,278,250	7,044,250	7,044,250

The carrying values of financial instruments included in current assets and current liabilities approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or the nature of these instruments. The fair value of long-term debt is calculated by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using quoted market prices when available. The fair value of the Corporation's long-term debt is determined using the provincial Crown borrowing rate for similar terms. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, has not been recorded in the statements.

To manage its current and anticipated exposure to interest rate risks, the Corporation has entered into an interest rate swap contract whereby it has fixed the interest rate on a total of $ 5,862,038. (2008 - $ 6,438,925.) of notional principal against the floating interest position assumed by the Bank of Montreal. The swap contract has an effective interest rate of 6.6% and will mature in October 2016.